

THE TAXATION OF CRITICAL ILLNESS INSURANCE

Grouped CI as an Employee Benefit

(i.e., Grouped Individual Critical Illness Insurance Contracts)

The Arrangement	<ul style="list-style-type: none"> • The employer implements a “Grouped CI” plan, and acquires individual CI policies covering individual employees, with the corporation being the policyholder¹ • Any Return of Premium on Death (ROPD) or Surrender (ROPS or ROPE) should generally be payable to the corporation
Purpose	<ul style="list-style-type: none"> • An insured individual will receive a benefit (or partial benefit) upon the diagnosis of a covered condition (subject to survival period requirements) • An insured individual has complete discretion as to how the lump-sum benefit (or partial benefit) is spent, including (but not limited to): <ul style="list-style-type: none"> ➢ Paying medical expenses not covered by employer or government plans ➢ Paying off any financial obligations, including mortgages, lines of credit, credit card balances ➢ Making home modifications (some of which may qualify as medical expenses) ➢ Paying for long-term care • ROP benefits will reduce the employer’s net cost of the program
Tax Treatment	<ul style="list-style-type: none"> • The arrangement will be considered a <i>Group Accident and Sickness Plan</i> for tax purposes^{2,3} • Employer-paid premiums are deductible for tax purposes • Employer-paid premiums are not a taxable benefit to the employees (except in the case of Quebec for provincial tax purposes only) • Lump-sum benefits paid under group accident and sickness arrangements are not taxable to the employees • Where an employer has deducted the premiums originally paid, any ROP benefits it receives generally represent a recovery of these expenses, and will be included in income
Additional Considerations	<ul style="list-style-type: none"> • The employer should provide employees with documentation that explains the arrangement. This documentation also evidences the existence of the Grouped CI plan (i.e., Common Plan), and explains the arrangement to the employees so as to minimize any misunderstandings about coverages, etc. • The employer should ensure that benefits provided by the arrangement cannot be construed as periodic wage-loss benefits for the employee. • CI insurance provides essential protection to employees and their families. The employer should review other group insurance arrangements, and ensure that the appropriate type and amount of coverage is in place. • Applications for the CI coverage should be submitted concurrently to establish the necessary “group.” • Consideration may be given to adding Grouped CI (qualifying as a “group accident and sickness” for tax purposes) to coverages provided through a Health and Welfare Trust.

This analysis is not necessarily appropriate for contracts issued by other insurers, as the product features, etc. are not necessarily identical to those of Standard Life’s Protecta contract. It is intended for general information only. It should not be construed as legal, accounting, tax or specific investment advice. Clients should consult a professional advisor concerning their situations and any specific investment matters. While reasonable steps have been taken to ensure that this information was accurate as of the date hereof, The Standard Life Assurance Company of Canada and its affiliates make no representation or warranty as to the accuracy of this information and assume no responsibility for reliance upon it.

¹ Where participants are both shareholders and employees, it is assumed that they participated in the arrangement by virtue of their employment, not their shareholding.

² This occurs where the individual CI contracts qualify as “accident and sickness,” and at least two employees participate in the arrangement, or “common plan.” CRA generally accepts that such arrangements qualify as “group sickness or accident insurance plans” for tax purposes.

³ CRA generally accepts that stand-alone CI contracts that do not provide for ROP benefits are “accident and sickness” contracts. CRA has also stated that the existence of a ROP feature will not necessarily disqualify a CI contract from being considered an “accident and sickness” contract. However, CRA and the Department of Finance have not concluded their review. The industry believes that the existence of ancillary features such as ROP should not change the characterization of the policy. (For contracts issued in Quebec, CRA appears to be of the view that under Quebec Law, the contract is an “accident and sickness” contract. Thus, in Quebec, lump-sum benefits received are non-taxable, which should not change where an ROP feature is present.)